

Notes by DCE
1/22/74

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The President's Daily Brief

January 22, 1974

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

January 22, 1974

PRINCIPAL DEVELOPMENTS

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Chinese military elements remain active in the Paracels, but no additional fighting with South Vietnamese forces has occurred. The North Vietnamese have taken unofficial note of the incident. (Page 2)

China

(Page 3)

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Tokyo registered a \$10.1-billion balance-of-payments deficit for 1973, in contrast to a \$4.7-billion surplus in 1972. (Page 4)

some poppy cultivation must be allowed in southwestern Turkey. (Page 5)

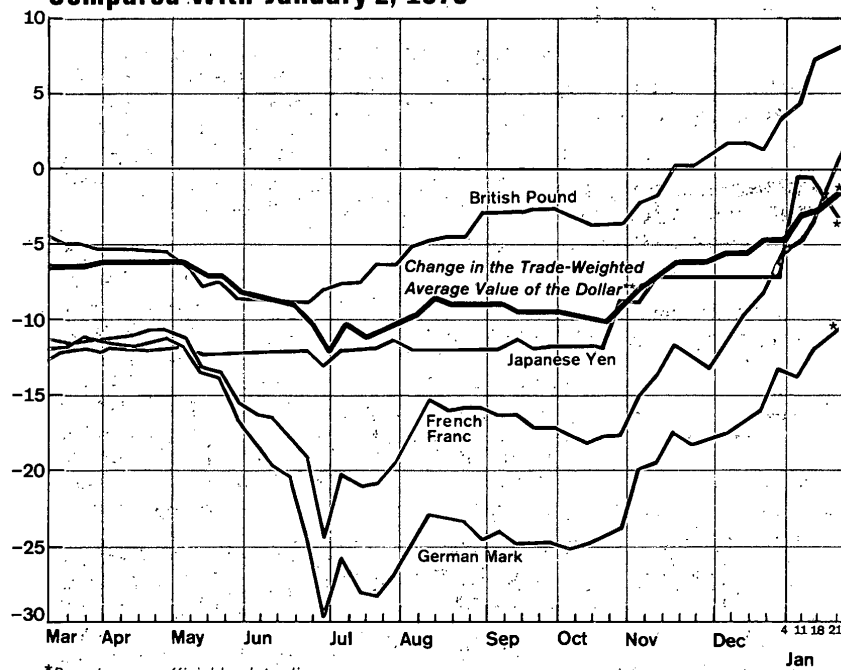
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Notes on Australia's plans to recognize North Korea and the Lao prime minister's expectations for a new coalition government appear on Page 6.

Recent major political developments in China are reviewed at Annex.

FOR THE PRESIDENT ONLY

**Percent Change in the Value of the US Dollar
Relative to Selected Foreign Currencies
Compared With January 2, 1973**



*Based on nonofficial bank trading

**Relative to 16 major currencies

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INTERNATIONAL MONETARY DEVELOPMENTS

The French franc declined sharply relative to the dollar and other European currencies yesterday following Paris' decision to float the franc. Gold was fixed at \$138 an ounce in London, up more than \$8 over Friday but below the record \$141.74 reached during trading. The Paris and London currency exchanges were open Monday, but official exchanges in the seven remaining joint float countries plus Austria and Japan were closed to give officials time to assess the situation.

The weakened European joint float will resume today when the remaining members reopen their currency exchanges. The decision to continue the float was reached in Brussels yesterday after a meeting of the finance ministers of the five EC participants; the two non-EC participants, Norway and Sweden, concurred in the decision.

The decline of the franc--4.5 percent relative to the dollar--came despite a reported \$75 million in official dollar sales on the Paris exchange. The French apparently will attempt to slow the franc's depreciation through moderate intervention. Paris also moved to reduce speculative pressure on the franc by strengthening its foreign exchange controls. Other European currencies traded on the London exchange declined by smaller amounts. Sterling again closed at a record low relative to the dollar.

Japan ordered the Tokyo foreign exchange market to close for an unspecified period. The Japanese will pay particular attention to the course of the German mark before reopening the Tokyo market. If the remaining joint float currencies are allowed to depreciate further, Tokyo will almost certainly allow the yen to decline relative to the dollar.

Fears are spreading that the franc float will touch off a round of competitive devaluations by nations seeking a trading edge to offset their higher oil bills. International action will be needed to stem these fears.

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VIETNAM-CHINA

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Chinese military elements remain active in the area of the Paracel Islands, but no additional fighting with South Vietnamese forces has occurred.

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Saigon is seeking an emergency meeting of the UN Security Council on the matter, but it may have considerable difficulty finding the necessary nine votes to convene such a session.

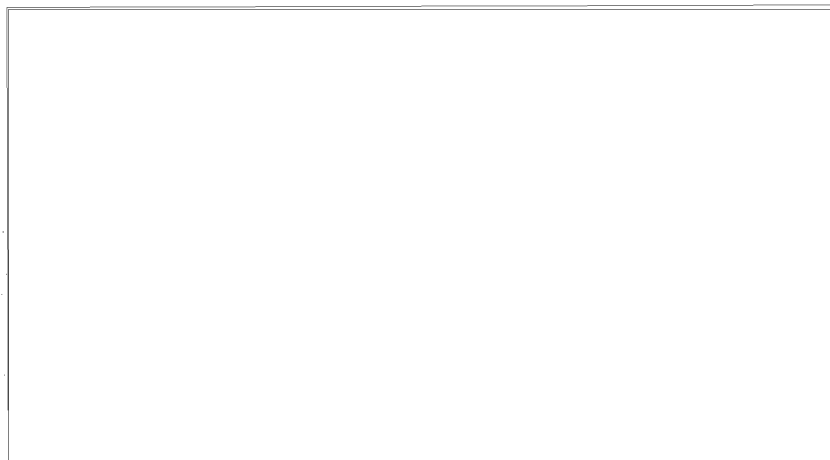
The North Vietnamese have taken unofficial note of the fighting, and their treatment indicates the trouble they are having with the issue. According to a French press report, "authorized sources" in Hanoi stated that preserving territorial sovereignty is a "sacred cause" for every nation, but that "the frequently complex disputes over territories and frontiers between neighboring countries demand careful and circumspect examination." While Hanoi does not have any direct claim to the Paracels, it does not want in any way to recognize Saigon. To scotch any hint of de facto recognition, the sources reiterated that Hanoi recognizes only the Provisional Revolutionary Government as the legitimate representative of the South Vietnamese.

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CHINA

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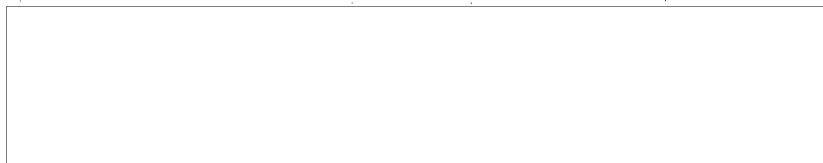
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FOR THE PRESIDENT ONLY

*FOR THE PRESIDENT ONLY***JAPAN**

Tokyo registered a \$10.1-billion balance-of-payments deficit for 1973, in contrast to a surplus of \$4.7 billion in 1972. Official foreign exchange reserves have been drawn down by one third to a level of \$12 billion.

Both trade and capital accounts deteriorated. The trade surplus fell to \$3.8 billion from \$9.0 billion in 1972 as a business upswing and soaring commodity prices pushed up the import bill by 70 percent. Exports rose nearly 30 percent, but the growth of export volume was slowed by resistance to higher prices on some products and by an inability to keep up with demand for others. The trade surplus with the US apparently dropped even faster than the surplus with the rest of the world.

The net outflow of long-term capital swelled from \$4.5 billion in 1972 to a record \$9.7 billion in 1973. Investment abroad increased in response to Tokyo's relaxation of capital controls and rising production costs in Japan. Tokyo also encouraged Japanese banks to expand substantially their overseas lending during the year.

Japan's balance of payments will register another large deficit in 1974. Higher oil prices alone will increase import costs by at least \$11 billion, and Japan's exports will have to increase relatively fast to avoid a trade deficit. Tokyo has already moved to discourage capital outflows and encourage inflows, and further efforts to limit this year's payments deficit can be expected. The imbalance, however, will remain large and should mean continued downward pressure on the yen, at least in the months immediately ahead.

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TURKEY

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[redacted] some opium-poppy cultivation must be permitted in order to improve the economic situation of peasants in former opium-producing areas in southwestern Turkey. An easing of the ban now in force, even if stringent controls are imposed on cultivation, would jeopardize recent progress in eliminating Turkey as a major source of illicit opium.

Although the ban was not a major issue during the election campaign last fall, all major parties promised to help the farmers in former poppy-growing areas. Opposition to the ban has remained strong in those areas despite efforts by Ankara, with US financial backing, to compensate farmers for their lost income. The farmers have still lost money because they have not been able to sell various opium by-products.

With the onset of the spring planting season, pressure to ease the ban on opium-poppy cultivation will increase. It will probably be some time, however, before the new coalition government reaches a definitive decision on the matter.

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NOTES

Australia-Korea: Australia informed Seoul yesterday that it will proceed with negotiations to recognize North Korea. Canberra will wait until Seoul has a chance to respond, but the Australians have made clear that their decision is firm. Australia has reassured South Korea that it will not downgrade ties with Seoul and has attempted to ease South Korean annoyance by promising to encourage socialist countries to recognize Seoul.

Laos: Prime Minister Souvanna now expects the new coalition government to be formed early next month. According to Souvanna, Soth Phetrasy, head of the Lao Communist delegation to the Joint Central Commission to Implement the Agreement, says that the Communists' chief political negotiator will return to Vientiane later this week with a list of Pathet Lao ministers for the new government. Souvanna has been urging such a step for weeks.

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CHINA: "THE PARTY COMMANDS THE GUN"

The new year has already seen two major developments in China--the unprecedented rotation of eight high-ranking military men, in effect dislodging nearly all of them from well-entrenched provincial bases, and the reinstatement of the once-disgraced Teng Hsiao-ping to the Politburo and his appointment to the important Military Affairs Commission. These moves are at least as important as the reconstitution of the Politburo at the Tenth Party Congress last August.

The recent changes reduce the danger that disaffected provincial military leaders can combine with ultraleftists in Peking to oppose the moderate policies that have been in effect at home and abroad for the past several years. In addition, prospects for convening the overdue National People's Congress have now improved, and it may also be possible to fill high military posts in Peking. Nevertheless, the latest moves do not signal an end to political problems within the leadership; indeed, they run the risk of creating new ones.

Military Commanders Shifted

The rotation of military commanders speeds up what had been a gradual effort to ease provincial military leaders out of top party and government posts. As early as the spring of 1971, Chou En-lai had expressed uneasiness over the pervasive role of the military in provincial affairs, and the question of the army's proper place was unquestionably a major element in the demise of Defense Minister Lin Piao the following autumn. In the aftermath of that, a return to civilian party leadership in the provinces was never really in doubt; the only question was how rapidly it could take place. A selective purge of military men in provincial leadership posts began at once, but did not run its course until the summer of 1972. The effort to reduce the power of provincial military leaders then slowed considerably.

Plans for a further large reduction in the number of military in provincial party posts were probably made in preparation for the Tenth Party Congress. These plans, however, evidently met stiff opposition

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The resistance of the military [redacted] may well have postponed a more drastic dilution of the army's political role than that which occurred at the party congress. The number of military men on the central committee was significantly reduced, but those on the Politburo who had avoided being implicated in Lin Piao's abortive military coup were able to retain their positions.

The Return of Teng Hsiao-ping

The complete rehabilitation of Teng Hsiao-ping, who had been party secretary general before the Cultural Revolution, very likely was also discussed at the congress. The fact that he was not then named to the Politburo indicates that opposition to such a move had not been overcome by the summer. This opposition may have existed among military figures who wished to retain a significant political role for the PLA, as well as among ultraleftists who had helped engineer his downfall in 1966. Teng's appointment to the Military Affairs Commission also strongly suggests that he will play a significant role in the formulation of policy affecting the military--quite possibly in connection with a redefinition of the army's political role. His posting strongly affirms the principle that the "party commands the gun."

Final plans for the rotation of the regional commanders, as well as Teng's appointment, probably were worked out at high-level meetings after the congress. Unlike the provincial military figures who vanished after the Lin affair, the men involved were rotated, not purged. The media continue to record their appearances in their new bailiwicks and have in fact given most of them considerable publicity. Nevertheless, the only titles they now hold pertain strictly to their military duties. The regime will almost certainly find it easier to appoint civilian cadre to the leading party and government posts in the several provinces affected by the rotation than would have been the case had it left the military commanders in place and attempted to deprive them of their party and government positions.

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*FOR THE PRESIDENT ONLY*The Struggle Is Not Over

The military leaders were permitted to save face, and this testifies to their still formidable strength. Indeed, the way the media are currently treating the military--giving only limited praise while emphasizing the necessity for discipline and party control--suggests that Peking is wary of that strength and may even anticipate further trouble from among the army's leaders.

A clearer reading of the regime's attitude toward the army will be possible when the top positions in the military establishment are filled. Marshal Yeh Chien-ying, a 75-year-old member of the Standing Committee of the Politburo, still seems the logical choice for defense minister. A close associate of Chou En-lai, Yeh has in effect filled the post since Lin Piao vacated it. Teng Hsiao-ping seems a good candidate for the job of chief of the General Political Department, a post apparently vacated by the transfer to Manchuria of Li Te-sheng, who has held the job for several years. There are several possible candidates for chief of staff. All this suggests that further bargaining lies ahead.

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